

E-002/CI-91-966 ORDER ACCEPTING REPORT AND CONSOLIDATING RECORD

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an
Investigation Regarding Northern
States Power Company's Refuse
Derived Fuel Activity

ISSUE DATE: October 30, 1992

DOCKET NO. E-002/CI-91-966

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PROCEDURAL HISTORY

On August 15, 1985, the Commission issued an advisory opinion in Docket No. E-002/M-84-790¹. In that opinion the Commission stated that it was unlikely that facilities for processing refuse derived fuel (RDF) would be included in rate base for Northern States Power Company (NSP or the Company). RDF combustion units, however, might be included in rate base if certain factors could be proven.

On November 27, 1991, the Commission issued its FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER in NSP's last general rate case, Docket No. E-002/GR-91-1.² In that Order the Commission included NSP's plant investment in its RDF-burning generating plants in rate base; operating costs of the plants were included in the test year income statement. The Commission did not make any adjustment to NSP's financial statement for costs of power purchased from a generating facility which burns RDF produced by NSP.

In the November 27 Order the Commission also directed that the Department of Public Service (the Department) conduct an investigation into NSP's RDF operations "to determine the extent to which ratepayers benefit and to examine the propriety of NSP's

¹ In the Matter of the Request by Northern States Power Company to Consider Refuse Derived Fuel Facilities as Regulated Electric Utility Property.

² In the Matter of the Application of Northern States Power Company for Authority to Increase Its Rates for Electric Service in the State of Minnesota.

activity with respect to RDF." The investigation was largely in response to issues raised by Mankato Citizens Concerned with Preserving Environmental Quality (now known as Mankatoans for Environmental Quality, or Mankato), a grass roots organization focused on RDF issues. On December 12, 1991, the Commission issued its ORDER INITIATING INVESTIGATION in the present docket. The Department filed its report and recommendations regarding NSP's RDF activities on May 1, 1992.

On July 6, 1992, the Commission issued its ORDER REQUIRING REPORT. In that Order the Commission found that there were still numerous matters at issue among the parties to the RDF investigation proceeding. The Commission therefore ordered the Department, NSP and Mankato to meet, discuss the areas of conflict, and report back to the Commission.

Mankato, the Department and NSP met on July 15, 21, and 28, 1992. Each party filed comments regarding the meetings on August 5, 1992. Mankato filed an additional letter with a corrected table on August 20, 1992.

The matter came before the Commission for consideration on October 15, 1992.

FINDINGS AND CONCLUSIONS

I. Factual Background

NSP processes metropolitan solid waste into fuel at its nonregulated RDF processing facilities at Elk River and Newport. The processed fuel is then burned at Red Wing and Wilmarth, two NSP generating facilities which have been modified to accommodate the use of RDF. NSP also sells RDF as fuel to United Power Association (UPA). That fuel is burned in UPA's Elk River generating station; NSP purchases the power produced.

II. Comments of the Parties

The Department

The Department stated that there are two main issues which have arisen in the RDF investigation: Are the costs of power generated in NSP's Red Wing and Wilmarth plants reasonable, in light of the Commission's 1985 advisory opinion? Are the costs of power from these plants high, thereby creating a situation of ratepayer subsidization?

In its August 5, 1992 comments, the Department submitted four

corrections or additions to its May 1, 1992 report. According to the Department, these items were agreed to by the other parties in the July meetings. The Department's additions consisted of the following:

1. Numerical corrections to the May 1, 1992 report;
2. Evidence on likely alternatives to contracting with UPA;
3. A shift in the Department's recommendation from requiring a time audit from the Company to dropping the requirement of a time audit;
4. A general understanding that there is no source of RDF fuel which is equivalent to NSP's source.

The Department stated that there were seven policy and methodological issues which remain in dispute among the parties. The issues included such matters as the basis for life cycle analysis, the use of total costs of plants as the basis for cost comparison, and the use of Sherco 3 as opposed to system average costs for determination of energy costs.

The Department asked that the Commission hear oral arguments on the disputed matters at the Commission's October 15, 1992 meeting. The Department requested further that the Commission issue an advisory Order providing guidelines for acceptable cost comparison methodologies to be used by the parties. While the Department stated that most fact issues would have to be resolved in NSP's next general rate case, the Department felt that the Commission's guidance on matters concerning methodology would enable parties to prepare for the rate case and to participate effectively in it.

NSP

NSP agreed with the Department that the four additions to the Department's report were acceptable.

NSP listed five factual matters which it considered unresolved by the parties. The disputed issues included such matters as the use of life cycle plant for cost comparison, discounting capacity to 50 percent for the avoided cost comparison, and the use of total costs of plants as the basis for cost comparison.

The Company agreed with the Department that the matters still in dispute would have to be litigated in NSP's upcoming rate case. The Company also agreed with the Department that an advisory Order from the Commission would provide the necessary guidance on methodology for participants in the rate case.

Mankato

Mankato noted twelve factual issues which remained in dispute. Mankato's list included such matters as fuel and operating and maintenance numbers, avoided capacity cost calculations, avoided cost as reflected by Sherco 3, and the need for further investigation regarding ratepayer subsidization of NSP nonregulated activities. While Mankato believed that these issues required further development in contested case proceedings, Mankato did feel that the Commission could provide some clarification and guidance regarding the issues prior to NSP's rate case.

III. Commission Action

The Commission finds that the report of the Department dated May 1, 1992 fulfills the Commission's directives in its December 12, 1991 ORDER INITIATING INVESTIGATION and its July 6, 1992 ORDER REQUIRING REPORT. The Commission also agrees with the parties that the four additions and clarifications submitted by the Department in its August 5, 1992 comments should be accepted into the record.

The Commission finds that the remaining contested issues are complex factual matters and must be developed in the full context of a general rate case. In NSP's upcoming rate case, the Commission will form a determination on these issues after they have been fully litigated by the concerned parties. Only in the context of the Company's overall financial picture, including rate of return, rate base and income determinations, can the issues be fairly addressed.

The Commission is unable to comply with parties' requests to provide guidelines or policy determinations regarding the disputed issues in this docket. Such issues as Sherco 3 avoided cost versus system-wide cost comparisons are more than matters of methodology or procedure; they go to the very heart of the issues in this investigation. The Commission is unable to make decisions on these questions without compromising the full determination which will be part of the Company's upcoming general rate case.

The Commission notes, however, that some guidance can be gleaned from the rate case process and from the Commission's 1985 advisory opinion. From these sources it is clear that the arguments of any party must be supported by test year data in the record. As an example, the Company must provide schedules of all costs (all rate base and income statement effects) included in the test year which are associated with RDF operations. The Department, Mankato and any other intervenors must be prepared to stake their positions and to support any adjustments based upon test year costs. Any cost comparisons must ultimately be tied to common test year data. While non-test year arguments and

comparisons can be used to support positions, no argument will ultimately prevail without being grounded in test year data in the record.

ORDER

1. The Department's report dated May 1, 1992, and four additions from comments dated August 5, 1992, are accepted.
2. The record of this proceeding will be consolidated with NSP's next general rate case.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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